

**STATEMENT OF MICHAEL A. DEIHL
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UNITED STATES DEPARTMENT OF ENERGY**

**BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES
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Chairman Calvert and members of the Water and Power Subcommittee, I appreciate the opportunity to present an overview of Southwestern Power Administration's (Southwestern) FY 2005 budget request.

PROFILE OF SOUTHWESTERN POWER ADMINISTRATION

As the Nation moves forward to strengthen its national and economic security, Southwestern is a leader in this effort by delivering reliable, affordable, and environmentally sound electric energy. Southwestern exists to meet its public responsibilities, consistent with the Flood Control Act of 1944, to market and reliably deliver Federal power, recover power costs, and repay the Federal investment consistent with sound business principles, giving preference to public bodies and cooperatives while encouraging the most widespread use of the power.

In Southwestern's region, Federal hydropower is distributed to nearly seven million end users in a six-state area: Arkansas, Kansas, Louisiana, Missouri, Oklahoma, and Texas. To integrate the operation of the hydroelectric generating plants and to transmit power from 24 multi-purpose Federal water projects operated by the U. S. Army Corps of Engineers (Corps) to its customers, Southwestern operates and maintains 1,380 miles of high-voltage transmission line, 24 substations, and 47 microwave and VHF radio sites. Southwestern's Headquarters is in Tulsa, Oklahoma; the Dispatch Center is in Springfield, Missouri; and power system maintenance crews are based in Jonesboro, Arkansas; Gore, Oklahoma; and Springfield, Missouri.

PROGRAM PERFORMANCE

Southwestern's program goal is to provide customers with the benefits of Federal power by purchasing and receiving low cost, reliable electricity from Federal multi-

purpose hydroelectric dams at cost-based rates that produce revenues sufficient to repay all power costs to the American taxpayers. In FY 2003, Southwestern marketed approximately 3.8 billion kilowatt-hours of energy and transmission services that generated revenues of \$103 million, contingent on final audited financial statements. Approximately 48 percent of the \$1.1 billion in capital investments assigned to Southwestern has been repaid. All required payments toward capital investments have been paid in full and on time. Southwestern also has exceeded the North American Electric Reliability Council control compliance ratings for power system operations. Furthermore, Southwestern incurred a recordable accident frequency rate of only 1.3 per 200,000 hours worked compared to the industry rate of 4.8.

In support of the Administration's National Energy Policy goals and in support of open access transmission, Southwestern continues to participate with other transmission owners in the development of a Regional Transmission Organization (RTO), and fully supports its efforts as a reliability and security coordinator for the southwest region. In demonstration of our commitment to maintaining the reliability of the electrical grid, Southwestern partnered with other transmission owners to upgrade a transmission line in Kansas that was causing significant constraints on the region's transmission system. Commitment by Southwestern to participate in future transmission system projects while improving reliability will depend on greater use of non-Federal reimbursable authority for facility improvements, interconnections, and maintenance required by the security coordinator of the RTO.

In FY 2005, and thereafter, the Administration proposes to fund the Corps' power related operation and maintenance costs in Southwestern's service area from receipts derived from the sale of Federal power and related services. Since such costs are fully recovered in the rates customers pay, the Administration is proposing to have such costs funded through power receipts rather than through annual

appropriations. The result would be a more reliable Federal generating resource. Under this funding authorization, Congress would continue to have full oversight of the Corps' operation and maintenance costs on an annual basis.

Southwestern has integrated the principles of the President's Management Agenda (PMA) into its existing operations to be even more effective and cost efficient. Improvements have been made on each of the five PMA initiatives. Southwestern has developed and published a Human Capital Management Plan, updated its Workforce Restructuring Plan, implemented a Management Succession Plan, and is currently working on linking employee pay with performance. Southwestern is participating in the Federal Enterprise Architecture and has an up-to-date Cyber Security Program Plan. Southwestern implemented the Automated Time and Attendance Payroll System serviced by the Defense Finance and Accounting Service and is in the process of upgrading the Oracle Federal financial accounting system. As one of the first participants in OMB's Program Assessment Rating Tool, Southwestern scored "Moderately Effective." Southwestern received high marks for effective planning and management, but needed to improve long-term goals. Southwestern is currently working with OMB to refine the goals reflected in this budget request. Southwestern has made significant progress toward achieving these initiatives and is working with DOE and OMB in achieving a "Green" rating in all elements.

The authority, enacted in FY 2001, to fund purchased power and wheeling activities through the use of receipts derived from the sale of Federal power will end after FY 2004. In FY 2005, Southwestern proposes to fund this subprogram through alternative financing arrangements [net billing, bill crediting, and reimbursable authority (customer advances)] and other operational arrangements with customers to fulfill Southwestern's Federal 1200-hour contractual peaking power obligations.

FY 2005 BUDGET REQUEST

Funding Profile

(dollars in thousands)

	FY 2003	FY 2004	FY 2005 Request
Operations and Maintenance	\$3,790	\$4,635	\$4,676
Purchased Power and Wheeling	11,500	10,600	11,200
Construction	5,992	4,704	5,352
Program Direction	17,818	19,092	19,324
Total, Southwestern Program Level.....	\$39,100	\$39,031	\$40,552
Offsetting Collections Realized	-1,800	-1,800	0
Alternative Financing/Customer Advances	-9,700	-8,800	-11,200
Use of Prior Year Balances	-400	0	0
Budget Authority, Southwestern Power Administration	\$27,200	\$28,431	\$29,352

Southwestern's FY 2005 total budget authority is \$29.4 million. Non-Federal reimbursable authority in the amount of \$12.0 million is requested for purchased power and wheeling activities and transmission requirements for interconnections, maintenance, and energy imbalance adjustments. The increase in Southwestern's funding is due to efforts in maintaining an aging transmission system while meeting the demands of increased power loads and alleviating power flow constraints.

The majority of budget authority is required for Program Direction, which includes 179 full-time equivalent employees who market and deliver Federally-generated hydroelectric power to customers, operate and maintain Southwestern's high-voltage interconnected power system and associated facilities, and provide administrative support.

As a result of Presidential Decision Directive 63, Critical Infrastructure Protection, Southwestern has designated energy security as a priority. A timeline has been developed for the completion of the Risk Assessment Methodology for Transmission. Security improvements will be made to Southwestern's critical assets in priority order. Southwestern has taken significant physical and cyber security precautions to safeguard employees and infrastructure from harm.

Mr. Chairman, I will be pleased to answer any questions you or members of the Subcommittee may have.